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THE CORPORATE ANNUAL REPORT AS A TEACHING AID IN BUSINESS COMMUNICATION CLASSES

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The annual report, pampered pet project of corporate communications departments, can be very useful in undergraduate business communication classes. Certainly it deserves more attention than the two paragraphs in the chapter on the formal report of most business communication textbooks.

Issued in waves of glossy, multicolored bulk mail each spring, the annual report is available in quantity from several sources. Since timeliness is not a factor in the classroom exercises to be described here, ask the university librarian to send you some of last year's copies when files are updated.

If you prefer the latest editions, have each student request one from a company when you discuss the letter of direct request. Or answer advertisements in the print media (*Forbes*, *Business Week*, *The New York Times*) which each year offer copies of hundreds of these reports to their readers. Request all of them! This does not subvert the purpose of such advertising; the reports are being studied by a public most corporations consider extremely important: college students.

BACKGROUND INFORMATION

Prepare the class for these exercises with background information on annual reporting. The primary purpose of the annual report is informing shareowners of their company's affairs in the past fiscal year. Among secondary purposes are attracting new shareowners, informing employees and instilling in them a sense of pride in the company, and advising security analysts of the financial health of the company, giving that important group, responsible for a large proportion of investments in the company's common stock—one estimate is three-fourths of all such commitment—an idea of the firm's potential, information to be relayed to their clients.

Others for whom the annual report is produced include the Securities and Exchange Commission (SEC) and other government regulatory agencies, customers, community, civic leaders, suppliers, distributors, libraries, contest judges, the press, educators, and students of all levels. (Some corporations, like Wheelabrator-Frye Inc. of Hampton, New

Hampshire, now prepares a separate report for children.)

Since 1858 when the Borden Company issued the first report, its form has evolved from that single piece of financial data to, in most cases, an ostentatious display of a corporation's products and promise. One United Press International article called the procedure "... corporate management's yearly exercise in puffery and obfuscation."¹

In 1900, the New York Stock Exchange requested members to publish financial information. The format of an annual report has since become fairly standard. Each has a cover, a letter to shareowners signed by the chief executive officer, a narrative section, financial tables, and an auditor's statement. Some of these are included in reports of companies listed on a stock exchange by order (1934) of the SEC.

The federal government broadened "full disclosure" laws in 1964, requiring larger unlisted firms to disclose financial information. With the 1974 reports, the SEC changed the guidelines for annual reporting considerably. For the first time, corporations were required to state in the annual report that the 10-K statement, the extensive financial form filed with the SEC, is available on request to shareowners without charge. Other changes that year were:

1. Financial statements certified for two fiscal years instead of only one.
2. A five-year summary of operations; none was necessary before.
3. Management assessment of the financial information.
4. A brief description of the company's operations and of those of subsidiaries.
5. Breakdowns of results by lines of business or classes of product, previously only disclosed in the 10-K form.
6. Identification of each high executive officer and director and of their principal occupations.
7. Name of the market where the stock is traded with high and low sales prices quarterly for the latest two years. Also dividend data for two years.²

Finally, the SEC ruled that with the 1977 reports, results presented "... must conform to new

accounting rules that require information by 'industry segment' as well as by geographic area. Suppose, for example, a company has three major divisions—one making chemicals, one manufacturing power lawn mowers, and a third producing office furniture. For each of these divisions, the firm now must list assets, depreciation and capital expenditures, and show the amount of sales and profits produced."³

CLASS EXERCISES

Now students are ready to begin these exercises which can be performed in several successive class meetings or at different times throughout the semester (for an often appreciated change of pace). This is the only time in their academic experience that most students will look this closely at the annual report. Even those who take public relations courses are not likely to study it from this perspective.

Packaging

Students or instructor should bring the reports to class as they were received in the mail. Ask each student to examine the package.

If there is an envelope, is it intact or has it been damaged in transit?

If there isn't an envelope, is the report damaged in any way?

What is the student's impression of the company based on the annual report's packaging?

Cover Letter

Next, have the students open the envelopes. What kind of transmittal technique has been used to present the annual report to them? Some reports will have a cover letter, form or personal; some will contain only a printed card; others, no transmittal device at all.

Is it a personal reply, if the students requested the reports themselves?

If offered in advertisements, do the annual reports include letters that so indicate, or are they copies of the letter sent to all shareowners?

How does the letter measure up to good letter-writing style? Is the format correct? Is the tone friendly? Is the salutation intended to include the largest possible number of publics? (There is usually a great variety, including "Dear Sir/Madam," "Dear Investor," "Dear Friend," and "To Readers of *Business Week* Requesting Our Annual Report.")

How do the students feel about the company based on whatever method was used to transmit to them the annual report?

The Report

Divide the examination of the report itself into stages: graphics and format, financial statements, and text.

Graphics and Format

Ask the students to study the reports first from a graphic arts point of view.

Is the report no larger than 8½" x 11" for easy filling and handling?

Is the cover meaningful and provocative? Does it include a colored picture, embossing, cutout, or other interesting technique?

Do the inside pages include other such devices as colored pictures, colored paper, coated paper, full-page or half-page foldouts, half-page inserts or others, all of which increase production costs?

Is the type large enough to be read by older shareowners?

Is there plenty of white space for easy note-making by security analysts?

Are there some pictures—but not too many? What are the subjects of the pictures? Are there people in them? Why is it logical to include pictures of all top officers and the directors (most of whom the shareowners will be seeing shortly at the annual meeting)?

Are there plenty of charts and graphs? Are they clear and well done? What does the presence (or absence) of adequate charts and graphs indicate about the company's efforts to communicate?

Financial Statements

Ask students next to review the financial tables.

Did the company earn money last year? If not, why would they still produce an elaborate, expensive annual report (if they did, and most do)?

How will shareowners, particularly those who received not one dividend check last year, react to that?

Text

This provides several areas for study. The most interesting aspect of the text of annual reports in recent years has been how companies have handled profit losses, if they discussed them at all.

Students find it interesting to apply the readability formulas to the text. They are amazed when the level reaches graduate school and beyond since the average shareowner has no more than a high school education.

Have the students examine the text stylistically. The annual reports receive the undivided attention of professional writers for several months of the fiscal year being reported and are supposedly examples of good, if not excellent, writing. Have the class study the text for variety of sentence types, sentence lengths, and beginning words of sentences. Results of this usually show that there is poor variety by any measure applied, particularly length. Most report writers prefer unvaryingly long sentences.

The text can also be used to study transitions. Are they used? If so, what kinds are there and how well do they bridge sentences and paragraphs?

Oral Exercise

Finally, using the information from the preceding exercises, ask each student to state to the class the following about the annual report he or she studied: name of the company, headquarters location, product line or service; date and place of annual meeting, number of employees, number of shareowners, and a brief overview of all aspects of the report discussed in class. Was there a notification of the availability of the 10-K statement? Was it prominently positioned on the inside of the front

or back cover or buried inside the report where it is likely to be missed? What extras, such as foldouts, have they found? Are pictures of officers and directors "head-and-shoulders" only or are they action shots? Are there any young people, women, or minorities among them?

Students are then asked to declare whether they would either invest money or accept employment with the company based on the annual report. The point is made here that such future decisions should be based on this kind of analysis.

FOLLOW-UP

As a follow-up exercise, you may wish to have your students write up the results of this entire study and send those reports to their respective companies. They thereby receive additional practical experience in both report-writing and letter-writing.

Favorable or unfavorable, these results would be welcomed by corporate public relations officers, among others. They will almost surely respond with appreciation, providing yet another lesson: that even with that single most important part of a corporation's communications program, the students' opinions—being shaped in the classroom—can be expressed with some assurance of being heard and of generating a response, both now and that day to come when they make that shift in publics from students to employees.



NOTES AND REFERENCES

1. "Annual Reports Tell More But Aren't Always Clearer," United Press International, *Star-Ledger*, Newark, NJ, June 13, 1975, p. 19.

2. Lewis D. Gilbert, "Annual Reports Acquire a New

Look," *The New York Times*, March 23, 1975, Section 3, p. 12.

3. "This Year: New Data for Stockholders," *U. S. News & World Report*, 84:8, March 27, 1978, p. 106.

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